

Message Text

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C O N F I D E N T I A L STATE 182883

TOECO 32

FOLLOWING TEL SENT ACTION SECSTATE INFO BEIRUT DHAHRAN KUWAIT
LONDON LAGOS PARIS TEHRAN TRIPOLI VIENNA FROM JIDDA 12
SEPTEMBER REPEATED

QTE C O N F I D E N T I A L JIDDA 3954

EO 11652: GDS

TAGS: ENRG, SA

SUBJECT: SAUDI TEAM AT OPEC AND BEYOND

REF: (A) KUWAIT 3271; (B) KUWAKZ 3280; (C) BEIRUT 10642

SUMMARY.SAUDI TEAM AT OPEC MEETING SEPTEMBER 15 TO BE
HEADED BY PRINCE SA'UD BIN FAISAL, WHO CONFIRMS MAIN SUB-
JECT THERE WILL BE FINDING A CONCENSUS ON HOW MUCH SHOULD
BE DEMANDED OF THE COMPANIES IN SEEKING CHANGES IN THE
TEHRAN INFLATION FORMULA AND BUY-BACK PRICING. HE SUGGEST
A RISE FROM 2.5 TO AT LEAST HALFWAY TO THE 8 PERCENT ACTUAL
RATE OF INFLATION WILL BE SOUGHT. PRINCE SA'UD PLANS TO
MEET WITH PARENT COMPANY REPRESENTATIVES IN NEW YORK
SEPTEMBER 17-19. NO INDICATION OF WHETHER SAG IS CON-
CERNED ABOUT KUWAIT PARTICIPATION AGREEMENT NOR OF ITS
IMPACT ON SAG POLICY, BUT YAMANI WILL MEET PARENT COM-
PANY REPS IN NEW YORK SEPTEMBER 13. ARAMCO APPEARS TO
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REMAIN IN DARK ABOUT SAG INTENTIONS ON PARTICIPATION.

END SUMMARY.

1. PRINCE SA'UD BIN FAISAL CONFIRMED SEPTEMBER 9 TO ECONOMIC COUSELOR THAT HE PREPARING TO HEAD SAG DELEGATION TO OPEC MEETING AND THEN TRAVEL TO NEW YORK TO SEE PARENT COMPANY REPS SEPTEMBER 17-18. HE ALSO CONFIRMED OPEC MEETING HAD BEEN LARGELY CONCERNED WITH TECHNICAL MATTERS, PARTICULARLY DRYDOCK PROJECT IN BAHRAIN AND ARAB TANKER COMPANY. SA'UD ASSERTED VIENNA MEETING WOULD BE LIMITED TO REVISION OF TEHRAN INFLATION FORMULA AND PERHAPS REVISION OF BUY-BACK PRICES TO GIVE GOVERNMENTS FAIRER SHARE EXCESS PROFITS OF NEW MARKETING SITUATION. ON INFLATION, HE SUGGESTED FORMULA RAISING ANNUAL INCREASE TO POINT HALFWAY BETWEEN PRESENT 2.5 PERCENT RATE AND ACTUAL 8 PERCENT RISE IN PRICES WHICH MAJOR CONSUMING COUNTRIES NOW EXPERIENCING ANNUALLY.

2. SA'UD DID NOT COMMENT ON PARTICIPATION AGREEMENT NOR ON POSSIBILITY OF CHANGES IN IT BY KUWAIT. (MEES INTERVIEW WITH YAMANI HAD NOT YET SURFACED (REF C).) ARAMCO SOURCE CONFIRMS NO FURTHER SAG ACTION YET TOWARD IMPLEMENTING PARTICIPATION AGREEMENT (SUCH AS SIGNATURE, FOR EXAMPLE, OF VARIOUS SUBSIDIARY TECHNICAL AGREEMENTS), NOR HAS ANY STRUCTURE BEEN SET UP BY MINISTRY OF PETROLEUM OR PETROMIN TO EXERCISE THEIR SUPPOSED NEW PREROGATIVES AS LARGEST SINGLE OWNER IN ARAMCO.

3. DISCUSSIONS WITH PETROMIN ECONOMIST FARUQ HUSSEINI (WHO WILL ALSO ATTEND OPEC TALKS) INDICATE THERE IS SOME STUDY BEING GIVEN TO PROBLEMS INVOLVED IN SAG ITSELF SETTING LEVELS OF PRODUCTION BUT HE ADMITTED SAG LACK OF EXPERTISE IN FIELD OF ESTIMATING WORLDWIDE DEMAND OR CONSUMER NEEDS. (ARAMCO HAS OFFERED AND SAG HAS ACCEPTED PROPOSAL TO TRAIN TWO MARKETING PEOPLE IN NEW YORK DURING COMING FEW WEEKS BUT THIS WOULD BE ON TECHNICAL SIDE DEALING ONLY WITH SUCH MATTERS AS PROGRAMMING OF TANKER OFF-TAKE AND SOME INTRODUCTION TO MYSTERIES OF SELLING OIL IN WORLD MARKETS.)

4. YAMANI IS SCHEDULED TO MEET WITH PARENT COMPANY REPRESENTATIVES
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PRESENTATIVES IN NEW YORK SEPTEMBER 13. IT WOULD BE SURPRISING IF SUBJECT OF STATUS OF PARTICIPATION AGREEMENT DID NOT ARISE AT THAT TIME.

5. COMMENT: SA'UD COMMENTS CONFIRM TREND OF GOVERNMENT'S THINKING WHICH CAN BE EXPECTED TO PREVAIL AT OPEC MEETINGS, THOUGH WE WOULD SUSPECT CORRIDOR TALK WILL DEAL ALSO WITH FUTURE OF PARTICIPATION AGREEMENTS. IT

WILL BE INTERESTING TO WATCH HOW YAMANI ADJUSTS TO
PRESSURES ON HIM TO REVISE PARTICIPATION AGREEMENT.
WHILE HE CAN IGNORE LIBYA AND ITS 51 PERCENT SO LONG AS
COMPANIES DO NOT FOLD ON THAT FRONT, HE WILL FIND IT
DIFFICULT TO IGNORE MAJOR REVISIONS BY FRIENDLY GULF PRO-
DUCERS, IF THEY OCCUR. AT SAME TIME, BASIC STABILITY
OF ARAMCO/SAG RELATIONSHIP BASED ON MUTUAL NEED FOR EACH
OTHER WILL REMAIN REGARDLESS OF REVISION. THACHER UNQTE
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